

**REPORT OF THE AUDIT OF THE
HICKMAN COUNTY
SHERIFF'S SETTLEMENT - 2008 TAXES**

**For The Period
May 1, 2008 Through April 24, 2009**



**CRIT LUALLEN
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EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
HICKMAN COUNTY
SHERIFF'S SETTLEMENT - 2008 TAXES

For The Period
May 1, 2008 Through April 24, 2009

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2008 Taxes for the Hickman County Sheriff for the period May 1, 2008 through April 24, 2009. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected taxes of \$1,667,662 for the districts for 2008 taxes, retaining commissions of \$67,787 to operate the Sheriff's office. The Sheriff distributed taxes of \$1,610,617 to the districts for 2008 taxes. Taxes of \$137 are due to the districts from the Sheriff and refunds of \$10,879 are due to the Sheriff from the taxing districts.

Report Comments:

- The Hickman County Sheriff's Office Lacks An Adequate Segregation Of Duties
- The Hickman County Sheriff Should Close Out The 2008 Tax Account
- The Hickman County Sheriff Should Require The Depository Institution To Pledge Or Provide Sufficient Collateral And Enter Into A Written Agreement To Protect Deposits

Deposits:

The Sheriff's deposits as of October 31, 2008 were exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured \$284,748

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Steven L. Beshear, Governor

Jonathan Miller, Secretary

Finance and Administration Cabinet

Honorable Greg Pruitt, Hickman County Judge/Executive

Honorable John Turner, Hickman County Sheriff

Members of the Hickman County Fiscal Court

Independent Auditor's Report

We have audited the Hickman County Sheriff's Settlement - 2008 Taxes for the period May 1, 2008 through April 24, 2009. This tax settlement is the responsibility of the Hickman County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement in accordance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Hickman County Sheriff's taxes charged, credited, and paid for the period May 1, 2008 through April 24, 2009, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated December 4, 2009 on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



To the People of Kentucky
Honorable Steven L. Beshear, Governor
Jonathan Miller, Secretary
Finance and Administration Cabinet
Honorable Greg Pruitt, Hickman County Judge/Executive
Honorable John Turner, Hickman County Sheriff
Members of the Hickman County Fiscal Court

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The Hickman County Sheriff's Office Lacks An Adequate Segregation Of Duties
- The Hickman County Sheriff Should Close Out The 2008 Tax Account
- The Hickman County Sheriff Should Require The Depository Institution To Pledge Or Provide Sufficient Collateral And Enter Into A Written Agreement To Protect Deposits

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", written in a cursive style.

Crit Luallen
Auditor of Public Accounts

December 4, 2009

HICKMAN COUNTY
JOHN TURNER, SHERIFF
SHERIFF'S SETTLEMENT - 2008 TAXES

For The Period May 1, 2008 Through April 24, 2009

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 191,990	\$ 182,181	\$ 690,873	\$ 177,445
Tangible Personal Property	15,256	11,884	63,567	36,092
Fire Protection	558			
Increases Through Exonerations	107	122	386	99
Omitted Taxes	56	43	203	52
Current Year Franchise	53,521	44,516	215,233	
Prior Year Franchise	2,903	2,708	10,845	
Additional Billings	144	109	520	133
Penalties	1,566	1,473	5,644	1,508
Adjusted to Sheriff's Receipt	(41)	(32)	(151)	(37)
Gross Chargeable to Sheriff	<u>266,060</u>	<u>243,004</u>	<u>987,120</u>	<u>215,292</u>
<u>Credits</u>				
Exonerations	400	384	1,417	364
Discounts	2,878	2,693	10,464	2,891
Delinquents:				
Real Estate	3,310	3,694	11,895	3,055
Tangible Personal Property	1	1	3	2
Franchise Taxes	61	60	241	
Total Credits	<u>6,650</u>	<u>6,832</u>	<u>24,020</u>	<u>6,312</u>
Taxes Collected	259,410	236,172	963,100	208,980
Less: Commissions *	<u>11,312</u>	<u>8,782</u>	<u>38,524</u>	<u>9,169</u>
Taxes Due	248,098	227,390	924,576	199,811
Taxes Paid	<u>248,100</u>	<u>229,213</u>	<u>933,491</u>	<u>199,813</u>
Due Districts or (Refunds Due Sheriff) as of Completion of Audit	<u>\$ (2)</u>	<u>\$ (1,823)</u>	<u>\$ (8,915)</u>	<u>\$ (2)</u>

* And ** See Next Page.

The accompanying notes are an integral part of this financial statement.

HICKMAN COUNTY
 JOHN TURNER, SHERIFF
 SHERIFF'S SETTLEMENT - 2008 TAXES
 For The Period May 1, 2008 Through April 24, 2009
 (Continued)

* Commissions:

10% on	\$	10,000
4.25% on	\$	655,941
4% on	\$	963,100
1% on	\$	38,621

** Special Taxing Districts:

Extension District	\$	(1,711)
Soil Conservation District		(134)
Clinton Fire District		137
Columbus Fire District		(115)
		<hr/>

Due District or		
(Refunds Due Sheriff)	\$	<u>(1,823)</u>

The accompanying notes are an integral part of this financial statement.

HICKMAN COUNTY
NOTES TO FINANCIAL STATEMENT

April 24, 2009

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Hickman County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were not met, as the Sheriff did not have a written agreement with the bank.

HICKMAN COUNTY
NOTES TO FINANCIAL STATEMENT
April 24, 2009
(Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Hickman County Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). On October 31, 2008, the Sheriff's bank balance was exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured \$284,748

Note 3. Tax Collection Period

The real and personal property tax assessments were levied as of January 1, 2008. Property taxes were billed to finance governmental services for the year ended June 30, 2009. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 8, 2008 through April 24, 2009.

Note 4. Interest Income

The Hickman County Sheriff earned \$862 as interest income on 2008 taxes. The Sheriff was in substantial compliance with his statutory responsibility regarding interest.

Note 5. Sheriff's 10% Add-On Fee

The Hickman County Sheriff collected \$8,913 of 10% add-on fees allowed by KRS 134.430(3). This amount was used to operate the Sheriff's office.

Note 6. Advertising Costs And Fees

The Hickman County Sheriff collected \$1,300 of advertising costs and advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). The advertising costs were paid to the fee account to reimburse the cost of the advertising, and the advertising fees were used to operate the Sheriff's office.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Greg Pruitt, Hickman County Judge/Executive
Honorable John Turner, Hickman County Sheriff
Members of the Hickman County Fiscal Court

**Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards**

We have audited the Hickman County Sheriff's Settlement - 2008 Taxes for the period May 1, 2008 through April 24, 2009, and have issued our report thereon dated December 4, 2009. The Sheriff prepares his financial statement in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Hickman County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Hickman County Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Hickman County Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the modified cash basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiency described in the accompanying comments and recommendations to be a significant deficiency in internal control over financial reporting.

- The Hickman County Sheriff's Office Lacks An Adequate Segregation Of Duties



Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiency described above to be a material weakness.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Hickman County Sheriff's Settlement - 2008 Taxes for the period May 1, 2008 through April 24, 2009, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations.

- The Hickman County Sheriff Should Close Out The 2008 Tax Account
- The Hickman County Sheriff Should Require The Depository Institution To Pledge Or Provide Sufficient Collateral And Enter Into Written Agreement To Protect Deposits

This report is intended solely for the information and use of management, the Hickman County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

December 4, 2009

COMMENTS AND RECOMMENDATIONS

HICKMAN COUNTY
JOHN TURNER, SHERIFF
COMMENTS AND RECOMMENDATIONS

For The Period May 1, 2008 Through April 24, 2009

INTERNAL CONTROL - SIGNIFICANT DEFICIENCY AND MATERIAL WEAKNESS:

The Hickman County Sheriff's Office Lacks An Adequate Segregation Of Duties

During the review of the internal control structure, the following deficiencies were noted in the control environment over revenue and expenditures:

- The Sheriff's bookkeeper collects money, prepares deposits, and reconciles to daily collection reports
- The Sheriff's bookkeeper signs all checks with no second signature required
- The Sheriff's bookkeeper prepares monthly bank reconciliation

No compensating controls were noted to offset any of these control deficiencies. Therefore, the control deficiencies as described above are significant deficiencies and material weaknesses. The Sheriff should segregate duties over revenue and expenditures or should implement the following compensating controls to limit the severity of these internal control weaknesses:

- The Sheriff or his designee should periodically prepare the daily bank deposit and compare it to the daily collection report prepared by the bookkeeper. Any differences should be reconciled. This should be documented by signing the bank deposit and daily collection report.
- The Sheriff or his designee should review the monthly tax reports and compare to checks written. The Sheriff or his designee should also review supporting documentation for any other checks written from the tax account such as overpayments and refunds. A second signature should be required on all checks.
- The Sheriff or his designee should prepare the monthly bank reconciliation. Any differences should be investigated. This should be documented by signing the bank reconciliation and checkbook.

Sheriff's Response: None.

HICKMAN COUNTY
 JOHN TURNER, SHERIFF
 COMMENTS AND RECOMMENDATIONS
 For The Period May 1, 2008 Through April 24, 2009
 (Continued)

STATE LAWS AND REGULATIONS:

The Hickman County Sheriff Should Close Out The 2008 Tax Account

The Hickman County Sheriff should close out the 2008 Tax Account by collecting and disbursing the following:

Ending Book Balance		\$	
Receivables Due Tax Account:			
Kentucky State Treasurer	\$	2	
Hickman County Treasurer		2	
Hickman County School		8,915	
Extension Office		1,711	
Soil Conservation		134	
Columbus Fire		115	
Fee Account - Commissions		316	
Fee Account - Interest		23	
		<u>23</u>	\$ 11,217
Total To Be Disbursed			\$ 11,217
Unpaid Obligations:			
Clinton Fire		136	
Hickman County School		23	
Nextel West Corp.		6	
Shell Pipeline Co.		8,054	
Windstream Kentucky East		57	
Kentucky Utilities		867	
Grand Trunk Corp.		1,985	
Sprint Communications		88	
Total Unpaid Obligations		<u>88</u>	<u>11,217</u>
Remaining Fund Balance as of Audit Date - To Fee Account			\$ <u><u> </u></u>

Sheriff's Response: None.

The Hickman County Sheriff Should Require The Depository Institution To Pledge Or Provide Sufficient Collateral And Enter Into A Written Agreement To Protect Deposits

On October 31, 2008, \$284,748 of the Sheriff's deposits of public funds were uninsured and unsecured. According to KRS 66.480(1)(d) and KRS 41.240(4), financial institutions maintaining deposits of public funds are required to pledge securities or provide surety bonds as collateral to secure these deposits if the amounts on deposit exceed the \$250,000 amount of

HICKMAN COUNTY
JOHN TURNER, SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Period May 1, 2008 Through April 24, 2009
(Continued)

STATE LAWS AND REGULATIONS: (Continued)

The Hickman County Sheriff Should Require The Depository Institution To Pledge Or Provide Sufficient Collateral And Enter Into A Written Agreement To Protect Deposits (Continued)

insurance coverage provided by the Federal Deposit Insurance Corporation (FDIC). The Sheriff should require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times. We also recommend the Sheriff enter into a written agreement with the depository institution to secure the Sheriff's interest in the collateral pledged or provided by the depository institution. According to federal law, 12 U.S.C.A. § 1823(e), this agreement, in order to be recognized as valid by the FDIC, should be (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Sheriff's Response: None.

